Summary of June 20, 2016 Board of Directors Meeting

The following individuals were present at the meeting:

Directors and Alternates, Acting as Directors:

- Heather Higginbottom, (attending for John Kerry, Secretary of State);
- Gayle Smith, Administrator, U.S. Agency for International Development (USAID);
- Marisa Lago (attending for Jacob Lew, Secretary of the Treasury);
- Edward Gresser (attending for Ambassador Michael Froman, United States Trade Representative (USTR));
- Dana Hyde, Chief Executive Officer, MCC, Chair;
- Morton Halperin, Private Sector Board Member;
- Susan McCue, Private Sector Board Member; and
- Michael Johanns, Private Sector Board Member.

Invited Guests:

- Mary Beth Goodman, Special Assistant to the President and Senior Director, National Security Council (NSC);
- Fouad Saad, Office of Management and Budget; and
- Ann Calvaresi-Barr and Justin Brown (USAID-OIG).

Other Participants:

1. Roland DeMarcellus (State +1)
2. Dan Peters (Treasury +1)
3. Melissa Williams (USAID +1)
4. Erland Herfindahl (USTR +1)
5. Nancy Lee (MCC +1)
6. Lori McClurg (Johanns +1)
7. Alicia Phillips Mandaville (McCue +1)
8. Paula Tufro (NSC +1)
9. Justin Cormier (OMB +1)
10. Sarah Fandell (MCC)
11. Daniella Ballou-Aares (State)
12. Sarita Vanka (State)
13. Etienne LeBailly (State)
14. Sait Mboob (USAID)

15. Rachel Fredman (Treasury)
16. Parita Shah (MCC)
17. Thomas Hohenthaner (MCC)
18. Laura Leussing (MCC)
19. Paul Weinberger (MCC)
20. James Mazzarella (MCC)
21. Beth Tritter (MCC)
22. Thomas Kelly (MCC)
23. Chris Maloney (MCC)
24. Kyeh Kim (MCC)
25. Fatema Sumar (MCC)
26. Lona Stoll (MCC)
27. Christopher Dunn (MCC)
28. Mahmoud Bah (MCC)
29. Jim Blades (MCC)
30. Alice Miller (MCC)
31. Shirley Jean (MCC)
32. Charles Morrison (MCC)
33. Pamela Woodard (MCC)
34. Andria Leo (MCC)

Presenters (in room for presentation or portion of; seated at table when speaking):

- Kristin Penn (MCC)
- Robert Fishbein (MCC)
- Jake Grover (MCC)
- Molly Glenn (MCC)
- Valentina Badrajan (MCA-Moldova)
- Craig Blackburn (MCC)

1. CEO Hyde called the meeting to order at 1:03 p.m. She noted that Deputy Secretary Higginbottom would be attending for Secretary Kerry. The meeting would feature a heavy focus on MCC's work in agriculture in Niger, Senegal and Moldova. The Board unanimously voted to approve the minutes of the March 28, 2016 Board meeting.
2. *CEO Update.*

   Ms. Hyde reported a successful May 25, 2016 close-out of the Philippines Compact, which totaled $434 million in value and focused on three areas: road infrastructure, domestic resource mobilization and community-driven small infrastructure projects. Ms. Hyde travelled to the Philippines with former Board Member Mark Green for compact closeout events, including a dinner hosted by President Aquino attended by several members of the Philippine presidential cabinet and the U.S. ambassador to the Philippines. The new Philippine government will come into office on July 1, 2016; the new finance minister will be MCC's prime interlocutor in continuing the compact relationship. Thus far, MCC is on track for the second Philippines Compact.

   Ms. Hyde said MCC has recently signed a Memorandum of Understanding (MOU) with the

African Development Bank that will focus on three areas of joint cooperation: analysis to develop best practices for growth, regional integration, and mobilizing private finance. MCC anticipates near-term opportunities in Senegal and Cote d'Ivoire with an eye toward regional integration projects.

Parties are on track to soon enter into force in the Ghana Power Compact investment. Bidding documents for a management concession for Ghana's electric utility will go out at the time of entry into force.

MCC and congressional stakeholders have engaged in conversation around regional compact authority. MCC has reason to believe a Senate bill on regional compact authority may move forward, a bill providing such authority having already been approved by a House Committee.

3. *Continued Examination into the Changing Landscape of Poverty.*

Ms. Hyde continued the conversation begun in the Board's previous meeting. She noted some areas of interest which arose from that conversation: 1) How has global poverty shifted over the past decade? 2) Is MCC's current approach to identifying where poverty exists still the most appropriate approach? and 3) What does the approach capture and how does it relate to other tools of U.S. foreign assistance?

Chris Maloney presented on initial findings on two of the questions arising from the March 2016 Board meeting: 1) other assistance and development tools available to upper middle-income countries (UMICs); and 2) the potential impact of using alternative approaches to defining the candidate pool. While extreme poverty has dropped below one billion persons globally, the extreme poverty which persists is concentrated in Africa and fragile states and is dominated by pockets of poverty existing in middle-income countries. UMIC poverty is concentrated in a particular subset of "poor UMICs" that feature income rates insufficient to prevent individuals from falling back into poverty. With poverty still a significant issue in many UMICs, what other development financing is available to them?

Jake Grover described the four types of development financing under consideration by the staff: other U.S. Government (USG) sources, other bilateral donors, multilateral donors and other sources of capital. Some 7.5 percent of USG foreign assistance goes to UMICs, about $2.7 billion. Excluding the assistance rendered to Jordan, this figure drops to about 5 percent. MCC's analysis focused on MCC-like aid around economic development and in areas where MCC has traditionally worked. This focus reduced the pool of money under comparison to about $600-800 million. Jordan continues to dominate the recipients of funding in this analysis. In 2014, leading bilateral donors committed approximately $4.3 billion in grants and $6.2 billion in loans to UMICs. Among these donors, the proportion of grants has decreased over time even as the number of UMICs increased. In 2014, the multilateral development banks (MDBs) committed over $32 billion in loans to UMICs but committed almost no grants. This is no surprise since most MDB financing to UMICs comes in the form of non-concessional loans. No MDB committed more than $75 million in total grants to UMICs in 2014. Both lower-income countries (LICs) and lower middle-income countries (LMICs) have limited capacity to raise domestic revenue and mobilize private capital. The picture for UMICs is more mixed, largely due to each particular UMIC's access to development finance.

Mr. Maloney enumerated the main takeaways of the analysis: 1) Some UMICs look like LMICs (and even LICs); 2) UMICs have wide variability in ability to access financing; and 3) MCC might have a role to play but would need to identify countries which exhibit both merit and need. This could be accomplished by applying scorecards and specific poverty measures.

Ms. Smith questioned how a lack of effective policy development in these countries may play into these results, and suggested that MCC staff could use scorecard results to tease out differences among countries. Ms. Higginbottom noted that the Board may consider further how to communicate with lawmakers on the issues and asked MCC staff to consider smaller countries that are part of MCC's existing candidate pool. Ms. Lago noted the challenge of obtaining development aid in the form of grants for middle-income countries, noting the importance of domestic resource mobilization including countries' ability to improve tax collection rates.

Ms. Hyde said the Board would continue to exercise its discretion as to countries with which MCC would enter into compacts. Mr. Johanns said grant aid to UMICs will be a tough sell to American lawmakers. He asked whether MCC has legal authority to target its aid for the benefit of only the poorest within a country. Ms. Hyde replied yes: MCC accomplishes this by means of a beneficiary analysis as it seeks to target poverty while fostering growth. Ms. Lago wondered how the regional development banks' approach might affect these results and inquired about the use of loan-based tools.

Ms. Hyde said MCC has not considered tools other than the compact and threshold programs in this discussion. Ms. McCue noted the importance of getting any conversation with Congress on these issues right. Ms. Goodman agreed, adding that MCC should consider poverty at the sub-national level. Also, domestic resource mobilization will be an important part of the conversation with Congress. Mr. Halperin noted that inasmuch as some UMICs pass the MCC index and yet still have high levels of poverty, the problem may be with MCC's index. Ms. Hyde said targeting MCC aid to the 100 poorest countries would be easiest to communicate as a program. Mr. Gresser agreed there is need for more research about persistent poverty. Ms. Hyde noted that the analysis and conversation would continue, but that the MCC scorecard will remain the same.

4. *Niger Compact Presentation*

Ms. Hyde introduced a proposed compact with Niger for Board review and approval. The proposed compact is designed to unlock Niger's agricultural productivity in a country that is among the poorest in the world. Experience in Moldova and Senegal helped inform the Niger program design. Indictments of individuals in Niger for misappropriation of food aid from other donors have prompted MCC to recheck the use of its funding in Niger over the last several years.

Kristin Penn said Niger consistently scores at the bottom of the Human Development Index (HDI).

Eighty percent of the population relies on agriculture for its livelihood, and access to water is one of the most critical limitations to growth. The compact will focus on two projects: irrigation and market access, and climate-resilient communities. The projects yield a total budget of about $437 million benefitting approximately 3.9 million Nigeriens. Activities under the climate-resilient communities project will be implemented in partnership with the World Bank.

Policy reforms, including those having to do with fertilizer distribution, establishment of water users' associations and road maintenance, are essential to achieving program objectives and sustainable impact. Plans are in place to help Niger manage its water resources more sustainably. Attracting private-sector investment may be challenging.

Ms. McCue asked for comment on improving private-sector investment. Ms. Penn said MCC has been focused on private investment, and that grants may be used to reduce risks seen by private investors. Ms. Lago suggested that World Bank and MCC team join up to perform a regional, basin-wide environmental and social impact assessment. Partnership with the World Bank on climate-resilient communities has been successful.

5. *Moldova Compact Closeout.*

Ms. Hyde introduced Valentina Badrajan, who served as CEO of MCA-Moldova, to present on the Moldova Compact implementation and closeout. The poorest country in Europe, Moldova has faced a lack of infrastructure which has prevented proper development of Moldova's agricultural resources. Projects under the compact focused on road rehabilitation ($112 million) and transition to high-value agriculture ($123 million). Ninety-six continuous kilometers of road were improved and are now known as the American Highway, which is considered the best road in the country.

Another compact project sought to address irrigation, credit and modern technologies in the agricultural sector. Reforms include the passage of new water users association laws and fortification of these associations' capacity. Challenges included the increased cost of irrigation infrastructure and political instability. Sustainable Development Account Moldova (SDAM), the successor organization to MCA-Moldova, attracts private sector engagement around compact investments.

6. *Senegal Compact Closeout*

Molly Glenn provided the presentation on the closeout of MCC investment in Senegal. The $540 million compact was completed in September 2015. The compact focused on unlocking agricultural potential and increasing access to markets. Approximately 70 percent of Senegalese rely on agriculture for their livelihood and are subject to inadequate access to water, climatic shocks and a poor business environment, resulting in low productivity. Aims were achieved by investing in large-scale irrigation, land tenure security and rehabilitation of road networks in agriculture-rich areas. Senegal aims to be rice-sufficient by 2017, since rice production in the zone is expected to rise by 172% over the next seven years. Cost-effective transportation was a key element of the value chain, which road rehabilitation addressed. Contractor performance issues caused the southern road rehabilitation project to be incomplete at the time of compact completion. The Senegalese government has taken on completion of the project at its own cost.

Among the lessons learned: mid-course corrections allowed for better completion success; senior government engagement is critical; comprehensive due diligence reduces implementation risks; stronger MCC involvement in setup has lasting benefits; institutional reform needs technical assistance built in; and donor collaboration is an important component of sustainability. The challenges early-on resulted in some $106 million in funding going unspent. Economic benefits have accrued to approximately 1.6 million Senegalese.

Ms. Higginbottom asked whether the lesson learned around mid-course correction had been applied in other country compacts. Ms. Hyde replied affirmatively, and also described the importance of senior government buy-in in getting to the finish line. Kyeh Kim identified the challenges in predicting relocation costs at a project's outset, though MCC has improved here. Mr. Johanns noted that he finds the course correction encouraging. Though the course correction was beneficial, it was also unfortunate that it did not come soon enough to prevent Senegal from having to expend its own funds to complete the project.

7. *Executive Session & Adjournment of Meeting*

The Board unanimously voted approval of the compact with the government of Niger. There being no other business, Ms. Hyde adjourned the meeting at 2:39 p.m.